

Action Item

Governmental Relations Committee

Federal Update, October 2001

This is a brief update on some of the major issues affecting education at the national level. At the October Commission meeting, staff will also provide an oral update on any late-breaking federal events.

This item also requests the Commission adopt formal positions of support on two federal bills – HR 1992 and HR 2482.

Recommended Action: Committee approval and Commission adoption of the report for appropriate action.

Presenter: Karl M. Engelbach.



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Purpose and content of this item

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Adoption of support positions on House Resolutions 1992 and 2482

While the Commission expressed general support for both HR 1992 and HR 2482 at its July meeting, it was precluded from adopting a formal position at that time because the agenda item had not been noticed as an action item. *Therefore, Commission staff requests that the Commission adopt a formal position of support on these items at its October meeting.*

HR 1992 would amend current federal law to make it easier for students who enroll in distance education programs to receive federal student financial aid, while HR 2482 eliminates the Pell Grant “tuition sensitivity” formula contained in current federal law. The present Pell Grant “tuition sensitivity” formula precludes the most financially needy students attending California Community Colleges from receiving the maximum Pell Grant award.

Consistent with Commission’s discussion at its July meeting, Executive Director Fox has sent a letter on behalf of the Commission to all California Congressional members indicating general support for both these bills. Samples of the two letters sent to California Congressional representatives appear as the attachments to this item. These letters also provide additional information about the measures and their potential positive implications for financially needy students.

Update on federal education appropriations bills

Congress began its month-long summer recess on August 3, 2001. The Senate will reconvene on September 4th and the House is scheduled to reconvene on September 5th. Before recessing, the House completed nine of the 13 appropriation bills for the new federal fiscal year that begins October 1. The education-spending bill was not among the as it is generally considered the largest and most controversial. Most observers anticipate that the House will begin its deliberations of the Labor, Health and Human Services, and Education appropriations bill in mid-September. As a result, conference committee negotiations over the House and Senate education spending bills will likely continue well into the new federal fiscal year. If this occurs, Congress will also need to pass a Continuing Resolution to allow for continued operations of existing programs until agreement is reached on a final spending measure.

Budget discussions are expected to be particularly intense this year. In the House, 150 Republican members have pledged to support any presidential vetoes of spending legislation that exceeds the amounts contained in the previously adopted Budget Resolution. This number (150) is four more than the minimum required to prevent override of a presidential veto. In addition, House Minority Leader Richard Gephardt (D-MO) stated that he is prepared to implement across-the-board spending cuts in all domestic programs – including education – to ensure a balanced federal budget and to avoid using Social Security funds. President Bush has also indicated that he will veto any legislation that attempts to raise spending levels beyond those contained in the Budget Resolution.

Commission staff will provide an oral update at the October Commission meeting regarding Congress' progress in adopting an education appropriations spending bill.

**Nation's state
legislators discuss the
economy, federalism,
and public cynicism at
27th annual NCSL
meeting**

As with their gubernatorial counterparts, the nation's state legislators assembled this summer to ponder a host of critical issues under the cloud of deteriorating fiscal conditions. Meeting in mid-July under the theme of "Navigating the Crosscurrents of America," the National Conference of State Legislatures (NCSL) wrestled with questions of how to reduce voter cynicism and partisanship in their work, and often admonished Washington to respect states' authority and to set a better tone for political discourse.

During the five-day meeting, the economy and its impact on state finances took center stage. In a plenary address to the conference, CNN's Stuart Varney echoed the emerging consensus that the economy is not likely to deteriorate further, but that recovery will not be quick. Additionally, a report delivered to the conference spelled out the effects of the slowdown on state budget decisions, with total state spending increases down from 9.1 percent in Fiscal Year 2001 to 3.2 percent in Fiscal Year 2002, and 20 states reporting "extraordinary actions" to balance FY02 budgets.

Higher education also made the legislators' agenda, with a panel of policymakers and observers examining a range of key trends and issues, including:

- ◆ **Costs/Accountability/Productivity:** Do we know enough about higher education's return on investment? If not, how do we get there? How do policymakers promote cost accountability without straying into micro-management? How might accountability discussions be complicated by the increasing privatization of public higher education?
- ◆ **Governance:** What can legislators do to improve governance relationships and processes such as selection of presidents/chancellors (e.g. review/reform of open meetings, open records laws)?

- ◆ **Communication:** How can lawmakers more effectively use their convening authority to open and sustain dialogue about higher education policy issues? How can colleges and universities communicate better with external audiences, especially those in the private sector?
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**Financial aid
on the rise**

Fifty-five percent of all undergraduates received some type of financial aid in the 1999-00 school year, up from 50 percent five years earlier, according to the [National Postsecondary Student Aid Study](#) released by the National Center for Education Statistics. According to the report, the average federal student loan to resident students at public universities in 1999-00 averaged \$4,743, up almost 10 percent from \$4,342 five years earlier. The authors of the report also found that among dependent students, 70 percent of undergraduates from families with incomes of less than \$20,000 received federal financial aid, as did nearly a quarter of undergraduates from families with incomes of \$100,000 or more.

**Education
Commission of the
States summer
conference**

Finance, teacher preparation, and the rise of the for-profit sector headlined the higher education component of the Education Commission of the States' National Forum on Education Policy, held July 18-21 in Philadelphia. The four-day event wrapped up with the installation of Nevada Governor Kenny Guinn as the new ECS chair. Guinn has announced that he will promote children's literacy during his chairmanship.

The Forum's higher education program included:

- ◆ A discussion of the reasons for and implications of the rapid growth of the for-profit sector in American higher education, with special emphasis on accreditation and quality assurance. ECS issued a report in conjunction with this session, which is available on-line at www.ecs.org/clearinghouse/27/33/2733.htm;
 - ◆ A presentation and panel on trends and projections in postsecondary education finance, where panelists noted that while higher education funding continues to grow in absolute terms, it is shrinking as a share of total state spending. A new National Education Association survey of legislators was referenced in the session and is available at <http://www.nea.org/he/leg-news/gofrom.pdf>;
 - ◆ A lively debate on the causes and effects of Florida's recent shift to a K-20 governance structures;
 - ◆ Panels on the role of community colleges in teacher preparation and development, as well as on the current state of research regarding effective teacher preparation methods.
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**Graduation rates
continue to decline**

Fewer than half of all students at four-year colleges and universities graduate according to new reports by the [Council for Aid to Education](#) (CAE) and [ACT](#). According to findings by researchers at ACT, the five-

year graduation rate at four-year public institutions was 41.9 percent and 55.5 percent at private institutions in 2000. In 1990 those rates were 47.9 percent and 57.8 percent respectively. Representatives at CAE believe several factors contribute to the decline in graduate rates including lack of preparation among high school graduates and less financial aid for low-income students.

**Law denying
student aid may be
softened**

U.S. Representative Mark Souder, the author of the original legislation, may modify the recently enacted bill that denies students financial aid for college if they have been convicted of possessing or selling drugs. Representative Souder is currently working with the U.S. Department of Education to change the [current bill](#), which penalizes students who have been convicted as much as two years ago.

Representative Souder has said in the past that he intended to refuse aid only to students that committed a crime while receiving federal money. More than 9,600 students were refused federal financial aid the first year the bill was in effect. Over 39,000 students could lose federal grants, low-cost student loans and work-study this coming year, since the government will now deny financial aid to students who refuse to answer the drug conviction question on their student aid application.

**Shrinking federal
surplus could
further squeeze
states**

On August 22, the federal Office of Management and Budget (OMB) announced that the non-Social Security component of the federal budget surplus has plunged to approximately \$1 billion for the current fiscal year. The surplus -- which has shrunk more than \$100 billion over the past several months -- has suffered from a combination of slowing revenues, the recent income tax rebate, and supplemental spending in defense, agriculture, and other programs.

While the [OMB report](#) projects healthy surpluses in the years ahead, the present squeeze may adversely impact states, many of which are struggling with their own fiscal problems. Moreover, the states are already set to lose approximately \$70 billion over the next 10 years on the phase-out of the state "piggyback" on the federal estate tax. Because the states rely on Washington for about one-quarter of their total budgets, the combination of these developments could further limit states' fiscal options as state legislatures reconvene.

**New accounting rules
proposed for
University-related**

The Governmental Accounting Standards Board (GASB), which sets financial reporting guidelines for public sector entities such as colleges and universities, is proposing new guidelines for institutions to include affiliated organizations (such as foundations and alumni associations) in their financial statements. According to GASB officials, the guidelines are intended to help institutions in determining whether data for an affiliated organization should be included in the institution's own financial statements.

The draft report offers a three-pronged test for determining whether an affiliated organization (legally separate and tax exempt) is to be included in the statement of a given "primary government" (in this case, college or university):

- ◆ The economic resources of the affiliated organization entirely (or almost entirely) and directly benefits the primary government and its constituents;
- ◆ The primary government is entitled to, or can access, a majority of the economic resources of the affiliated organization; and
- ◆ The economic resources accessed by the primary government are significant to that government.

GASB is accepting written comments on this proposal until October 31, and public hearings on it have been set for October 29 in Phoenix and November 2 in New York.

Student loan consolidation likely to be beneficial for borrowers currently in repayment

Interest rates on federal student loans have dropped recently, making consolidation in either the Direct Loan or Federal Family Education Loan (FFEL) Programs financially attractive for many borrowers presently in repayment status. In the Direct Loan program, there are additional financial advantages through the Repayment Incentive Program if students apply by September 30.

On September 5, Senator Ted Kennedy sent out a letter to many institutions addressed to student borrowers, for institutions to use with local groups, to make students in repayment aware of these opportunities. Senator Kennedy states, "Consolidation can be a wise choice for borrowers in either the Direct Loan or the FFEL loan program." Senator Kennedy's letter is available at <http://www.aascu.org/pdf/kennedyltr.pdf>.

CALIFORNIA POSTSECONDARY EDUCATION COMMISSION

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August 23, 2001

The Honorable Joe Baca
U.S. House of Representatives
1133 Longworth House Office Bldg.
Washington, DC 20515

Dear Congressman Baca:

On behalf of the California Postsecondary Education Commission, I am writing to encourage you to support House Resolution 1992. H.R. 1992, sponsored by Representative Isakson of Georgia, stems from the recommendations of the Congressionally-appointed Web Education Commission that Representative Isakson co-chaired with former Senator Kerrey of Nebraska. H.R. 1992 proposes three changes to existing law:

- It would repeal “the 50% rule” allowing institutions that teach a majority of their courses by telecommunications to be considered “higher education institutions,” thereby permitting their participation in federal student financial aid programs;
- It would eliminate “the 12 hour rule”-- the federal regulation that defines full-time education as 12 hours of classroom-based instruction; and
- It would alter federal laws and rules to allow colleges and universities to award bonuses or payments to those individuals that provide recruiting services based on the number of enrollees “recruited” by the service.

The changes proposed by H.R. 1992 will serve to encourage and support the expansion of the distance education programs offered by California’s colleges and universities. Additional distance education offerings are an important component to growing states, like California, in helping address the higher education needs of state citizens.

The amendments recently added to H.R. 1992 relating to additional reporting requirements for those institutions receiving federal funds as a result of the bill’s changes should ensure the continued integrity of the federal student aid programs and decrease the likelihood of increased fraud and abuse in these programs.

Please call me if I can provide additional information on this critical issue to the future expansion and use of distance education in serving the needs of California’s citizens.

Sincerely,

Warren H. Fox, Ph. D.
Executive Director

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August 24, 2001

The Honorable Joe Baca
U.S. House of Representatives
1133 Longworth House Office Bldg.
Washington, DC 20515

Dear Congressman Baca:

On behalf of the California Postsecondary Education Commission, I am writing to urge you to support H.R. 2482 -- the Access to Higher Education Act of 2001. H.R. 2482 would repeal the Pell Grant "tuition sensitivity" threshold contained in the federal Higher Education Act. In addition, the bill would allow eligible taxpayers to use the federal Hope and Lifetime Learning tax credits toward all qualifying educational expenses. Currently, the Hope and Lifetime Learning tax credits can only be claimed for tuition and fee related expenses.

As you know, California has a long-standing commitment to providing low-cost public higher education to its state citizens. Because of California's significant financial support of the California Community Colleges, our community colleges are the lowest priced public higher education institutions in the nation. This also means that California is the only state in the nation currently affected by the Pell Grant "tuition sensitivity" threshold contained in current federal law. While most students across the country will benefit from the increase to \$3,750 in the 2001-02 Pell Grant maximum, California Community College students will be eligible for a maximum of only \$3,619 because of the present federal "tuition sensitivity" threshold. In 2001-02, California will receive \$12.5 million less in federal Pell Grant aid for its financially needy students because of this threshold.

This shortfall may be deterring some community college students with the most financial need from achieving a postsecondary education. This \$131 difference in the maximum Pell Grant award could help students pay for books, room and board, supplies, computer expenses, and transportation expenses to attend college. In addition, unless the tuition sensitivity threshold is repealed, the gap between the maximum Pell Grant and the amount California Community College students will be eligible to receive will further widen in future years as the Pell Grant maximum is increased and community college students in several other states may also be affected. Passage of H.R. 2482 will eliminate any gap.

Further, the students affected by tuition-sensitivity are those with the most extreme financial need, whose financial circumstances result in a "zero expected family contribution." According to the federal financial aid methodology calculation, these students have no family resources available for education costs. For a single student, this typically means an annual income of less than \$6,500; for a single parent with two children, an income of less than \$20,000; and for a two-parent, two-child family with one child in college, an income of less than \$25,000. Approximately 95,000 California Community College students fall within these categories. Passage of the Access to Higher Education Act of 2001 will allow these 95,000 California Community College students to receive the maximum Pell Grant award; and, as you probably know, this is more students than most states enroll in their institutions.

H.R. 2482 will also enable more California residents -- not just those attending California Community Colleges, but students enrolled in any eligible postsecondary education institution -- to obtain the benefits associated with the Hope and Lifetime Learning tax credits. Since non-tuition college expenses represent the largest cost to students enrolled in California's public colleges and universities, the proposed change in the Hope and Lifetime Learning tax credits would provide Californians with additional financial assistance in meeting the costs of obtaining an education beyond high school.

Once again, I urge you to support H.R. 2482 so that California students, like their counterparts in other states, receive the maximum assistance for which they are eligible. Thank you.

Sincerely,

A handwritten signature in blue ink, appearing to read "Warren H. Fox".

Warren H. Fox, Ph.D.
Executive Director